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JAPAN'S RICE POLICY

SUMMARY

The food control system, which was instituted to assure stable supplies of food for Japan, has been in existence without major changes for 40 years. It now plays a role as a protective device for farmers and, as one of the major causes of the budget deficit, has come under re-examination from government and private-sector analysts. Attempts to justify the high costs of protection cannot blur the fact that these measures inhibit productivity and the efficient development of agriculture and are costly to consumers and taxpayers alike. A further problem is that the rice price policy does not encourage people to farm full time, but rather unnecessarily extends the tenure of part-time farmers.

Despite mounting foreign pressure to liberalize imports of agricultural products and rising domestic demands to reduce the widening budget deficit by curtailing financial assistance to farmers, the government increased rice support prices in 1982 under pressure from the Liberal Democratic Party. As long as politics dictate agricultural policy, this sector will not be competitive and the goal of food self-sufficiency will only be obtained at high costs. It is time to recognize that a new agricultural policy is essential.

Introduction

In recent years, Japan's agricultural sector has come under increasing attack from domestic and foreign critics who charge that government policies on food grains have led to high consumer prices, incurred large budgetary costs and restricted imports. While pressure from abroad to liberalize imports of beef and citrus has intensified in recent

months, the protection afforded an inefficient agricultural sector has simultaneously triggered the censure of domestic business and labor groups.

To alleviate rising tensions over agricultural policy, the Ministry of Agriculture, Forestry and Fisheries (MAFF) commissioned a study by the Agricultural Administration Council covering medium-term programs to modernize the sector. The subsequent report, "Directions of Agricultural Policy in the 1980s," recommended improvements in current programs designed to increase production of wheat, soybeans and other commodities and, at the same time, urged that MAFF attempt to restructure rice production and consumption. There is widespread agreement that with continuing surpluses of rice, an alternative should be found to the system under which MAFF's Food Agency buys most of the crop at high prices and adjusts resale (wholesale) prices. Although the government, saddled with excess inventories, has instituted a diversion program to reduce rice acreage, growers' demands for price increases have continued unabated, resulting in internationally high rice prices. This report will analyze the pricing process and its impact on producers as well as its effects on the economy.

Historical Background

Despite various measures to encourage the consumption of rice, the MAFF reports that per-capita consumption has slipped steadily. Rice consumption in FY 1981 totaled 11.1 million metric tons, a decline of 79,000 metric tons over the previous fiscal year. Per-capita consumption of rice was 77.8 kilograms, 1.4 percent below FY 1980's level and about two-thirds of peak consumption. At the same time, rice yields have risen due to improvements in technology and infrastructure, with average output rising from 371 kilograms per 10 ares (10 ares equal one-tenth of a hectare) in 1960 to 471 kilograms in 1980, exacerbating the problem.

Through the Food Control Law of 1942, the government has had the authority to purchase, sell and price imported and domestic food grains. This law has remained largely unchanged for more than 40 years, despite the dramatic growth of Japan's economy. As originally instituted, the system provided for quantitative control of rice production through the government's authority to oversee rice distribution. The government purchased all the rice produced by farmers except for certain on-farm requirements and allocated distribution according to a formula. Therefore, rice was not sold outside of government channels, nor was its price subject to supply and demand.

The rationale for this policy in wartime and during the postwar period of food shortages was clear: rice was in short supply and food self-sufficiency was vital. As the supply-demand situation eased, however, the practice of purchasing all the rice grown by farmers began to produce surpluses. In 1955 the government changed the system, replacing fixed quotas with voluntary sales. But because the government controlled distribution and regulated the price of rice, there was no legal marketing of rice outside of government channels. Since growers had to dispose of stocks somehow, the government had to turn a blind eye to the sale of rice on the black market — a change acknowledged institutionally when unregulated rice sales were introduced in 1969 and limits were imposed two years later on the amount of rice the government would buy from farmers. Farm groups were strongly opposed to the cap on purchases, but the government's goal was to balance a stable minimum supply against budgetary considerations.

The current system aims at indirect control through price supports and limited purchases by the government. This goal will prove difficult to achieve, since MAFF's

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medium-term supply-demand outlook predicts that improving yields and declining consumption will continue to 1990, compelling the government to design programs to reduce output.

Increases in the Rice Price, 1982

The process of establishing purchase (support) and resale prices for rice is highly sensitive politically. First, the growers' associations, of which Nokyo is the largest, present a suggested price level. At the same time, the government asks the Rice Price Council to make a recommendation on the producer price. Political considerations, including the considerable clout of the rural sector, come into play, and at length a decision is reached by the government and the Liberal Democratic Party (LDP). When the budget is drawn up, the Rice Price Council recommends a resale price, intended to keep the price low and encourage consumption. The final pricing decision reflects the strength of the farm constituency as much as the actual budgetary situation.

In 1982, farmers' associations presented a different formula, which was said to take into account the rising costs of the rice subsidy program. They proposed a 4.37-percent hike based on wage and price increases, instead of applying a production costs-plus-compensation base, which would have upped the price 29.2 percent. They further demanded the following adjustments: the maintenance of present quotas on imports of agricultural products; expansion of the land under cultivation to enhance productivity and lower production costs; a long-term land improvement plan; help in combining small fields into large farms; funds for research and development on high productivity technology and plant breeding; a freeze on rice land diversion acreage; development of industrial uses for rice; and the retention of the food control system. In other words, the growers decided to opt for a more realistic price level and wide-ranging agricultural improvement programs in a bid to enlist public support.

This theme was repeated at a demonstration called before the annual July meeting of the Rice Price Council. At what had come to be an annual show of strength, only 5,000 farmers appeared -- half the number in years past -- in a move that was designed to suggest negotiation instead of confrontation. But when MAFF Minister Kiichiro Tazawa asked the council to retain the 1981 producer price, an opposition group of farmers resigned and walked out of the meeting. Despite a later, more realistic request from the growers, the council refused to reconsider its position of no change in the price.

On July 16, however, just after the council meeting, a contingent of LDP members from agricultural constituencies succeeded in passing a resolution calling on the government to raise the support price to a level that was satisfactory to the growers and to subsidize sales of rice outside of government channels. Negotiations continued until the early morning hours of July 22 when agreement to raise the producer price by 1.1 percent was reached. In exchange, government negotiators won recognition of their stance that structural changes, nor higher prices, were the key to the enhanced international competitiveness of Japan's agricultural sector, the continued independence of Japan's farmers and a secure food supply. In a glum assessment of the decision, Toshiwo Doko, chairman of the Government Administrative Reform Commission and an advocate of holding the line on rice prices, said that the lack of public support for reducing government expenditures threatened the future course of administrative reform.

In the budget talks, the Ministry of Finance endorsed the government's contention that the price support system produced unacceptably large fiscal deficits and necessitated an increase in the retail price. MAFF, however, anxious to keep prices low and encourage rice consumption, called for a retention of low market prices. Because three consecutive years of poor rice crops and a scaled-back rice land diversion program for FY 1983 are expected to reduce budgetary outlays, MAFF's position ultimately prevailed.

Economic Impact of the Rice Price Policy

Impact on Producers -- The food control system has held rice prices artificially high, which in turn has encouraged farmers to increase production. Higher yields and firm prices have led to continuous improvements in rice production and more mechanization, enhancing land and labor productivity. The subsidies have also served as an income transfer to farmers, creating social and economic parity and providing strong support for the Liberal Democratic Party.

But purchasing rice surpluses has cost taxpayers and consumers dearly, and it has forced the government to initiate programs to divert rice land to other uses and to dispose of surplus stocks through exports and industrial and feed usage, all of which have provoked trade frictions with the United States.* As a result of the price support system, marginal farmers -- that is, small-scale and part-time operators with less than 1 hectare in rice cultivation -- comprised 77 percent of all Japanese rice growers in 1980.

Although the resale price is set below the support price, the differential between domestic and world rice prices is striking. For example, in 1981, Japanese prices were four times higher than U.S. levels and more than six times higher than Thailand's price. With such a cost disadvantage, Japanese rice is not internationally competitive. It is therefore important to consider whether the costs of the program can be justified on the grounds that it is necessary to redistribute income to the rural sector in spite of the program's inefficiencies.

Impact on Distribution -- The distribution of rice is handled by a network of 334 wholesalers and 63,800 retailers. The government-controlled system is archaic and rigid and has stymied marketing-improvement efforts. Replacing the current rice distribution system with a more broadly competitive one is essential, at least at the retail stage.

Impact on Consumers -- During the oil crisis of 1973, when prices of other agricultural products, such as wheat and soybeans, soared, the price of rice remained stable. While this has been desirable, other aspects of the rice subsidy program have had a negative influence. The swollen deficit in the Food Control Account for rice is a burden to consumers, who must pay both high retail prices as well as high taxes to maintain these subsidies. Moreover, consumers are dissatisfied with the rice sold by the government and prefer a higher quality. All of this suggests that the elimination of government controls once the rice has been sold to the wholesaler would introduce a favorable competitive situation; it would reduce retail prices and lighten the tax burden.

Expenditures for the Food Control System

As noted earlier, the rice support price for 1982 was raised by 1.1 percent, but to encourage consumption the resale price was not increased. The gap between the two prices therefore widened from 4.2 percent to 5.4 percent (Table 1), despite government assurances in 1976 that the spread would be eliminated within five years. In the FY 1983 budget, the costs of subsidizing rice production as well as domestic output of wheat and barley will amount to 11.3 percent of total agricultural expenditures -- lower than originally projected because of an increase in the wheat resale price.

On top of outlays for the subsidy program, the costs of disposing of surplus rice in FY 1983, the last year of a five-year plan to eliminate 6.5 million metric tons of excess stocks, are budgeted at ¥165 billion (about $0.7 billion at an exchange rate of ¥230=$1.00). The total cost of this program is pegged at ¥2.2 trillion (nearly $9.6 billion). Moreover, since 1971 the government has instituted three diversion programs to

reduce the production of rice. The current program, the Paddy Field Utilization Reorientation Program (1978-87), aims at diverting over 20 percent of total rice fields to alternative crops like wheat and soybeans. To date, the government has spent ¥2.8 trillion ($12.2 billion) on diversion incentives and has allocated ¥340 billion (almost $1.5 billion) for this purpose in the FY 1983 budget.

As shown in Table 2, the domestic Food Control Account has contracted as the difference between the support price and the resale price has narrowed, but expenditures for surplus rice disposal and rice land diversion have increased. Consequently, total outlays for rice programs have been around ¥1 trillion (over $4.3 billion) a year, or 25 to 40 percent of total agricultural expenditures, reducing sharply the funds available for other programs which aim at structural changes in agriculture.

Conclusion

In reality, both farmers and MAFF officials are convinced that the high costs of the rice subsidy program are a built-in feature of a land-poor country like Japan, and this theme underlies discussions on agriculture policy. One solution would be to encourage large-scale farming. According to MAFF, growers with less than 0.3 hectare spend more time on farming and make less money than growers with more than 3 hectares. Annual profits per 10 ares of rice fields average ¥94,111 ($409) for over 3 hectares, ¥67,184 ($292) for growers with 0.5 to 1 hectare, and ¥46,014 ($200) on plots smaller than 0.3 hectare. Therefore, as long as agricultural policy aims at protecting inefficient, part-time farmers, large-scale farming will be retarded and lower costs and prices will remain elusive. The current food control system is responsible for the high cost and low productivity of the agricultural sector. If subsidies to part-time, small-scale farmers are withdrawn, full-time farmers will take over production, and economies of scale will reduce production costs. Once rice prices decline, the output of other crops, such as wheat and soybeans, will rise without the necessity of costly subsidies. So, too, will the food self-sufficiency level.

*See William T. Coyle, Japan's Rice Policy (Washington, D.C.: U.S. Department of Agriculture, July 1981).

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Table 1: Government Purchase and Resale Prices for Rice, 1975-1982

(yen/60 kg)

Year	Purchase Price	Resale Price	Spread Between Purchase and Resale Prices
1975	¥15,570	¥12,205	¥3,365
1976	16,572	13,451	3,121
1977	17,232	14,771	2,461
1978	17,251	14,771	2,480
1979	17,279	15,391	1,888
1980	17,674	15,891	1,783
1981	17,756	16,391	1,365
1982	17,951	17,033	918

Source: Ministry of Agriculture, Forestry and Fisheries

Table 2: Japan's Agricult

(in billi

Fiscal Year	Total Expenditures for Agriculture	Food Control Prog		
		Total	Price Support Programs	Surplus Disposa Program
1975	¥2,176	¥909	¥753	¥59
1976	2,413	909	770	53
1977	2,640	824	698	33
1978	3,057	843	603	29
1979	3,463	896	634	33
1980	3,584	956	610	42
1981	3,693	995	567	85
1982	3,701	990	498	142
1983*	3,607	913	407	165

*Projected.

Source: Ministry of Finance

re Budget, FY 1975-FY 1983

s of yen)

ams	Percent of Agriculture Budget Spent on Price Support Programs	Percent of Agriculture Budget Spent on Total Food Programs
Diversion Programs		
¥97	34.6%	41.7%
86	31.9	37.7
98	26.4	31.4
211	19.7	27.6
228	18.3	25.9
303	17.0	26.7
343	15.4	26.9
350	13.5	26.8
341	11.3	25.3